Charter Schools Development Corporation

Celebrating 20 Years

# Credit Enhancement for Charter School Facilities Program
# Grant Application

## "Subordinate Slow Growth Loan Fund"

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***Competitive Preference Priority***

***(1) The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act of 1965, as amended (ESEA);***

In 2010, the Charter Schools Development Corporation (CSDC) was certified as a Community Development Financial Institution (CDFI), and specifically a Community Development Loan Fund, with a primary mission of providing financial services and technical assistance to the most underserved charter schools nationwide - those with significant low-income student populations in economically distressed communities, or in communities with a large number of poorly performing district schools - with an added organizational priority of supporting new and early-stage schools (those in their first three years of operation). CSDC's Board approved mission directly correlates to all three of the Competitive Preference Priority categories as follows: CSDC promotes community development nationally by targeting and providing financing to 1) public charter schools enrolling and serving a majority of students eligible for federally subsidized free or reduced price lunches under the Federal Free and Reduced School Lunch Program; 2) public charter schools located in economically distressed census tracts; and/or, 3) public charter schools located in communities with a large number of poor performing district schools.

CSDC does not limit its geographic coverage, but it has a significant track record serving charter schools in states with strong laws. While we are not geographically restricted, the following is a sampling of the types of communities we intend to serve which is reflective of the organization's overall commitment to meeting this priority preference.

<u>Colorado</u>

CSDC has closed more transactions in Colorado than other state, with 32 financings completed to date. According to the Colorado Department of Education, 37 school districts were identified for in need of improvement in 2015-16, with another 9 identified for Priority Improvement and 1 in turnaround. Combined, these districts represented over 25% of the school districts in the state. Results released in Nov. 2017 for the 2016-17 school year show that the percentage of accredited districts decreased almost 4% from the 2015-16 school year, while the number of districts identified for "improvement" increased from 37 to 49, or by 6.5% and the number of priority improvement districts remained the same. Rather than districts performing better year-over-year, the improvement & priority improvement districts combined represented 31% (versus 25% the prior year) of the school districts in the state. In Denver Public Schools, the graduation rate is a mere 64.8% and fewer than half of schools meet DPS's quality benchmarks. CSDC intends to continue to focus on Colorado with this grant.

Texas

The Texas Education Agency (TEA) annually releases a list of schools that qualify for Public Education Grants (PEG) – grants that permit parents whose child attends a school on the PEG list to request a transfer to another school within their home district or to a school in a different district. The districts receiving transfer students from the PEG list of schools get a slightly higher allocation of funding from the state under this program. Schools are put on the list whose passing rates on STAAR are less than or equal to 50% for any subject in any two of the preceding three years or were rated *Improvement Required* by the state accountability system in 2014, 2015, or 2016. CSDC will review this list annually to identify districts with significant numbers of PEG schools with demand for additional, high quality public school options. In the 2017-18 school year, the districts within San Antonio with the highest percentage of PEG schools were Edgewood ISD (53%), South San Antonio ISD (54%) and Southside ISD (86%).

As mentioned in the narrative application, CSDC is working with local supporters and foundations in select cities to bring more high quality options to students and families. In San Antonio, CSDC has partnerships with the Brackenridge Foundation as well as City ED Partners. These local relationships will aid in CSDC's ability to target and deploy credit enhancement funds in the lowest performing ISD's in the San Antonio region.

Indiana

Indianapolis Public Schools (IPS) has historically low proficiency rates among students in both math and language arts and at all grade levels. Prior to the 2015-16 school year when the state adopted a new growth model of accountability, IPS received F letter grades for performance from 2010-11 through 2012-13. Since then, the district has not shown much improvement, achieving only a D in 2013-14. Results remain consistent through the most recent school year in which data is available: only 24.5% of 3$^{rd}$-8$^{th}$ graders passed the state assessment in both ELA and Math in SY2016-17. The IPS district once again received a "D" as its final letter grade for school accountability for SY2016-17.

Arizona

Each year, Education Week, a national publication, releases its "Quality Counts" study comparing and grading state performance in three areas. The most recent study, released in 2017, had Arizona finishing 44$^{th}$ among the 50 states and D.C. with an overall grade of D+. The nation as a whole received a C grade.

***(2) The extent to which the applicant would target services to geographic areas in which a large proportion of students perform below proficient on State academic assessments; and***

CSDC will continue to focus on geographic areas in which many students perform below proficient on reading and math assessments. CSDC made a concerted effort to expand its reach to the neediest schools.

rates

CSDC, consistent with its CDFI mission, is currently serving a disproportionate number of schools in geographies with low proficiency ratings and will continue to target these states as part of this grant.

The following geographies are illustrative examples of the types of states and districts where CSDC concentrates its services:

Arizona

Arizona is located in the bottom third of states for $4^{th}$ and $8^{th}$ grade proficiency rates in both math and reading according to the most recent U.S. Department of Education "Education Dashboard." *A for Arizona* was created to address the void of high quality options. However, thousands of children are still waiting for the great school they deserve. The organization's mission is to expand the number of students served by "A" rated schools by 10% per year

CSDC has an office and personnel on the ground in Phoenix and will continue its historical focus on the state with this new grant.

Texas

CSDC has established close working relationships with several local philanthropic and educational partners focused on improving access to high quality public education options for students across the state of Texas, where the school aged population is projected to exceed 9 million by 2050. One means to improving educational outcomes is to recruit high performing CMO's and operators to start new schools. The philanthropic focus on easing one of the greatest barriers to launch a public charter school in low-income communities- affordable facilities – will make recruitment efforts a much easier endeavor. With this grant, CSDC will continue to have a sustained commitment to serving the needs of new operators as they prepare to launch by providing incubator space and access to other nonprofit turnkey development facilities.

In San Antonio, where CSDC intends to build an incubator facility with this grant, the statistics are dire. The city contains 15 separate Independent School Districts (ISD) with varying degrees of performance results. The majority of the schools CSDC will serve under this grant are projected to be in the following districts listed with the corresponding % of students meeting grade level in 2017 on the state's STAAR test: Southwest ISD (35%), South San Antonio (28%), Southside ISD (26%) and Edgewood (26%).

Indiana

The Mind Trust (TMT) is a nonprofit founded and launched to provide every Indianapolis student, regardless of income, access to a great, high-performing school. CSDC has a collaborative working relationship with TMT, as documented in the attached letter of support, with the overarching goal to maximize coordinated facility and financing support to TMT Fellows to accelerate the expansion of high-quality educational options for children and families in Indianapolis. In addition, all schools selected for services under this effort must meet the following criteria: operate in a high needs area where the average free and reduced price federal lunch ("FRL") population is 75% or higher, serve socio-economically and racially diverse schools, and finally, serve schools that are part of transformational place-based communities designed to turn around high poverty neighborhoods.

***(3) The extent to which the applicant would target services to communities with large proportions of students from low-income families***

The primary goal of this application is to target schools serving a low income target population nationwide. As stated in Goal #2 of the application, at least 65% of the schools financed through this grant will meet criteria including having a majority of low-income students. It is well documented that children living in poverty are almost three times more likely to attend low performing district schools. CSDC requires all schools to complete our standard application in which we collect data including the anticipated or actual FRL student population to be served both by the school, as well as the local public school district. CSDC believes educational opportunity and choice are critical to revitalizing distressed and educationally underserved communities, and CSDC will leverage its real estate expertise to help charter schools in these communities find and finance appropriate facilities.

Historically, 68% of the schools served by CSDC's CDFI programs have a majority of low-income students, consistent with the organization's mission and CDFI target market. While CSDC's program is national in scope, this grant will be deployed in a similar fashion to our prior awards where there is the greatest need, as well as in states/communities where CSDC has strategic partners.

As referenced earlier, CSDC will serve a national footprint. However, a goal of this application is to launch incubator facilities in San Antonio and Denver-Metro. There are four specific districts within Denver-Metro where the incubator is being targeted: Adams County 14, Adams-Arapahoe, Denver and Mapleton. As of 2017-18, the average free and reduced lunch population of these districts was 71%. Further, according to U.S. Census Bureau data, in 2016, over 20% of children ages 5-17 in Denver County live in poverty.

There are almost 600,000 school aged children in San Antonio. Of these, 64% are Hispanic, the majority of which live in moderate-to-high poverty areas. According to a recent study funded by the Annie E. Casey Foundation, this racial and income segregation are strongly connected to lower rates of economic mobility. Worse, child poverty rates for Hispanic and Black families is more than double that of White and Asian children. Five out of the six Independent School Districts (ISD) in San Antonio with the lowest property wealth per student serve student populations that are over 90% Latino, according to the study. In Bexar County (the largest within San Antonio) over 75% of students quality for free or reduced lunch.

The Fordham Institute published new research in April 2018 that identified states that have "charter school deserts." A charter school desert is defined as a neighborhood with plenty of population density and lots of disadvantaged kids where three or more contiguous census tracts have poverty rates greater than 20%, but few or no charter schools. The average number of "deserts" per state is 10.9, however, only three states have none. Although places like Denver and San Antonio contain many charters, the study found that they're often distributed in ways that provide no access to some of their neediest communities. For example, eastern and western parts of the Denver-Metro area and southern part of the state have charter deserts. Arizona has 13 charter deserts representing 12% of mid-to-high poverty census tracts that have no charters primarily in the southern, western, and eastern parts of the Tucson metro area and southern, eastern and central parts of the Phoenix metro area.

The following is a snapshot of the states where CSDC has served the greatest number of schools, has committed to serve more schools under this grant and where a significant percentage of charter deserts exist in high needs areas:

| [redacted] | | | | | | |
|---|---|---|---|---|---|---|
| Arizona | 16.40% | 54% | 11.00% | 13 | 23 | 12.00% |
| | | | | | | |
| District of Columbia | 18.50% | 73% | 15.00% | 3 | 9 | 5.00% |
| | | | | | | |
| Minnesota | 9.90% | 60% | 19.00% | 10 | 20 | 11.00% |
| | | | | | | |
| Texas | 15.60% | 65% | 13.00% | 23 | 6 | 3.00% |

**** Invitational priority***

***The applicant proposes a grant project that demonstrates its ability to partner with new actors and/or leverage new sources of capital and untapped non-Federal programs in order to finance charter school facilities. Projects proposing the development of one or more partnerships that will enable the applicant to leverage newly created or previously untapped sources of capital or other assistance, which may include non-Federal programs, in financing charter school facilities.***

CSDC has had a track record of success expanding the number of sources of capital to finance charter schools. The success of the previous credit enhancement applications has led to an increase in the number of commercial partners with non-Federal funds, primarily commercial lending institutions. The national reputation of CSDC has attracted the following philanthropic strategic partners: the Kauffman Foundation made a $5 million Program Related Investment (PRI), the Daniels Fund made a $3 million grant, the Calvert Foundation made a $1 million PRI, the Communities at Work Fund made a $1 million PRI, Innovative Schools made a $1 million PRI, the Walton Family Foundation made a $5 million PRI, and Opportunity 180 recently made a $1.5 million PRI in CSDC to help launch the first charter school under that new initiative. These philanthropic investments have been deployed across CSDC's lending and development programs and result in further leverage of our federal dollars. As discussed in the narrative, CSDC has achieved 16:1 leverage with its prior federal funds. Lacking the philanthropic contributions just noted, leverage would be significantly less at less than 12:1.

We will continue to solicit new financial or philanthropic organizations to invest in charter schools. For example, CSDC delivered one turnkey development project in San Antonio, TX in for SY15-16. In a few short years since the completion of that project, CSDC has been approached by multiple local philanthropies or support organizations to replicate and expand to serve more communities within the city. In the letter of support attached to this application, the Brackenridge Foundation has noted a desire to work with and through CSDC to deliver programs that impact more students in low-income communities than would otherwise be possible. Similarly, City Education Partners (CEP), a local non-profit that seeks to improve the educational outcomes for students in the city's urban core recognizes "CSDC's commitment to serve economically disadvantaged students aligns directly with our vision." Through catalytic grant-making, CEP aspires to create an ecosystem that will foster 100,000 high quality seats, and an incubator is one mechanism CEP will support to "eliminate the barriers of facility access that currently inhibit growth" according CEP's Director of Investments, Sukhdeep Kaur.

These collaborations will accelerate the expansion of high-quality educational options for children and families in San Antonio and complement local education reform efforts already underway.

Additionally, in Indiana, CSDC will leverage its relationship with the Mind Trust to ensure charter operators are aware of our programs. As mentioned in their letter of support, "Many of Indy's high performing charter school networks were able to open their first schools due to CSDC's partnership and continue to seek this type of support…partners like CSDC are essential to ensuring that new schools are able to afford a facility without compromising their educational programs and responsible growth enrollment."

## Quality of project design and significance

***1)The extent to which the grant proposal would provide financing to charter schools at better rates and terms than they can receive absent assistance through the program.***

The Charter Schools Development Corporation (CSDC), a 501(c)(3) tax-exempt, nonprofit corporation and Community Development Financial Institution (CDFI), has helped public charter schools acquire and finance facilities at the lowest possible cost, first as a credit enhancement provider, then as a nonprofit developer of facilities for lease with purchase option, and most recently, as a lender to charter school organizations. CSDC's mission is to support quality school choice for underserved students by developing and financing affordable charter school facilities. While there are many CDFIs who lend to the charter school market, CSDC believes it is one of only 4 CDFIs with an exclusive charter school mission, and possibly the only CDFI that works exclusively with charter schools nationwide. CSDC assists charter schools with the acquisition and financing of educational facilities appropriate to the school's mission, design, student population and enrollment, both current and projected. CSDC has been providing highly leveraged facility financing and turnkey real estate development solutions and has received six prior federal credit enhancement grants ($10 million in 2002, $5 million in 2004, $6.6 million in 2006, $2 million in 2011, $5 million in 2016 and $5 million in 2017).

As CSDC served more schools over the years through its "Building Block Fund," a $29.6 million national revolving credit enhancement program initially capitalized with three of our prior federal grants and philanthropic funding from the Ewing Marion Kauffman Foundation of Kansas City and the Daniels Fund of Denver, we successfully met the financing needs of a wide range of charter schools, from start-up and newly formed schools with less than three years of operating history seeking to secure leases, leasehold improvement loans and mortgage financing, to those that are growing and expanding into permanent facilities. However, through that experience, we noticed a proliferation of schools entering into less than attractive lease agreements, for example, leases with no purchase options or purchase options at rates that resulted in economic burdens on school budgets, and requirements for personal or other guaranties and leases from private landlords that passed on real estate taxes to schools in the form of higher lease rates. In 2008, CSDC identified the need for a nonprofit organization to develop, own and lease facilities to schools with much more attractive terms as an alternative solution in the market.

CSDC created its nonprofit turnkey facilities development program, the Turnkey Development Program (TDP), to help charter schools focus on their true mission –providing the best education possible for every student. Under CSDC's TDP "lease-to-own" model, we remove the burden of financing, designing and constructing facilities from school leaders so that they can focus on the business of launching and operating a high quality school. This problem is even more acute for schools implementing slow growth models where enrollment in the early years is insufficient to carry the debt load of most facilities. The CSDC team understands the complexities of real estate development and finance and how to deliver a customized "turnkey" solution to each charter school client, no matter how big or small.

Leasing from CSDC as an interim step to ownership enables our tenant schools to gain operational experience, establish a record of sound business practices and good academic results, setting the stage for long term stability, success and creditworthiness. As evidenced in the attached Letter of Support from Tommy Reddicks, Executive Director of the Paramount School of Excellence:

> In reviewing our journey of growth since 2010, we can’t help but be reflective on our start with CSDC, and the impact of their initial funding efforts.
>
> To meet the need for responsibly starting our school, we utilized CSDC’s help with funding and support for our charter school facilities. This process was the only avenue available to us that allowed for a financially viable school rollout. Other financing options involved multiple layers of legal obstacles and crippling debt service... The trickle-down impact of a strong financial start for our organization impacted the effectiveness of the organization’s ability to achieve its goals. So, our school’s academic and community success is directly connected to its financial flexibility, and its ongoing partnership with organizations like CSDC.

The bottom line is that the “nonprofit developer difference” translates into a cost savings that is passed directly through to our charter school tenants, resulting in more affordable facilities. With CSDC in the role of developer and landlord, its charter school tenants can more easily access educational space that meets their enrollment needs – and their budgets. Too often, educators are forced to become real estate experts which can lead to project overruns and time delays.

Under the TDP program, CSDC performs the following three primary activities: purchases, renovates and leases the educational facilities to charter schools on beneficial terms and conditions; obtains favorable financing using credit enhancements; and provides a turn-key real estate solution with the tax and financing advantages that CSDC enjoys as a strong credit and nonprofit owner “passing through” to its charter school tenants in the form of lower rents. We do this as a 501(c)(3) that is often eligible for property tax exemption which can result in additional annual savings equivalent to funding a teaching position, as well as pricing the initial base rent on the total annual cost to finance 100% of the project. To the extent the debt payments to CSDC are lower due to lower interest rates on the senior or sub-debt, longer amortizations or interest-only periods, the resulting rent to the school will also be proportionately reduced.  CSDC also fixes its rent for the first two lease years, with modest 1% escalations beginning in the third lease year – a feature especially attractive to slow growth model schools commencing operations with only one grade or small student populations.

Building Excellent Schools

Building Excellent Schools (BES) is a national nonprofit organization committed to improving the academic achievement of underserved students in our nation's urban centers. They accomplish this by training leaders to take on the demanding and urgent work of leading high-achieving, college preparatory urban charter schools.

The history of BES dates back to 2001, when in response to the poor academic outcomes of Massachusetts' first charter schools, the Massachusetts Charter School Resource Center set out to ensure that a dominant share of new charters would be truly excellent. By providing intensive, full-time training to individuals to build new charter schools of the highest quality, the Building Excellent Schools Fellowship was born. The model was so successful that the organization expanded its training outside of the state and re-formed as Building Excellent Schools, a self-governed nonprofit corporation, in 2003. From serving three states in 2004 to working in five times that many states currently, BES has a wealth of experience and track record of success in training high-capacity leaders and founding top-performing schools.

BES is committed to improving the academic achievement of the most underserved students – 84% of students in BES led schools qualify for free/reduced lunch.  To date, BES has established 100+ schools in 26 cities across 15 states, educating over 27,000 students.  With more than half of BES schools adding additional campuses, and with new cohorts of leaders being trained each year, BES anticipates there will be 148 schools impacting 31,000 students by the fall of 2018, creating a steady pipeline of demand for new facilities.

BES Fellows face the additional challenge of finding space that can be scaled to match their slow growth/high quality enrollment model. Each BES school commences operations with one grade level serving approximately 100 students, with a grade added each year thereafter until the school reaches full enrollment. Historically, these schools often incur short-term, high interest rate debt when revenue is at its lowest, to improve start-up space such as strip malls, churches or vacant office buildings. As confirmed by Carol Ascher in "The Finance Gap: Charter Schools and Their Facilities," published by the Institute for Education and Social Policy, the debt burden to finance these improvements often continues to be paid off long after the school has moved out and into larger space to accommodate growing enrollments. In other words, schools are investing in improvements that they can't take with them when they leave and have little long term value.

CSDC has developed 65 campuses consisting of 2.9 million square feet of turn-key facilities valued at almost $265 million. However, in order to accommodate the unique needs of slow growth schools, more credit enhancement will be necessary to lower the overall cost of financing so that CSDC can offer lower rents during the start-up years. CSDC's prior grants did not take this into consideration and so the performance measures under those grants prohibit CSDC from investing more than 10-15% in subdebt into multiple projects. A new grant would enable CSDC to provide more turn-key facilities to slow growth model schools partially by developing incubator space and funding a larger portion of the subordinated debt (up to 30%) with longer amortization periods (20 vs 15 years) at a lower cost (5% vs 7%) reducing the overall debt service and resulting lease expense to our tenants. A typical project funded by this grant compared to the same project funded with traditional sub-debt will save schools up to $250,000 in lease expense over the first 5 year lease term.

**CSDC is requesting a $12 million grant to expand its capacity to deliver nonprofit turnkey real estate development projects to new, early stage and slow growth model schools nationally by using credit enhancement to leverage a subordinated loan pool of approximately $25 million that, in turn, further attracts and leverages approximately $125 million in new senior financing at better terms and lower cost to finance 100% loan-to-value ("LTV"), and thereby reducing the overall facilities costs to schools.**

The grant will serve as a first loss loan reserve to leverage a new $25 million subordinated debt fund ("FUND") primarily, but not exclusively, for CSDC's TDP charter school facility projects. We recognize that we cannot serve every school under our TDP program, and that there will be qualifying schools that can develop their own facilities, but lack financing. FUND loans, combined with traditional senior debt, will provide 100% financing to both types of projects as demand dictates. The FUND will provide below market rates (approx 5%) and higher LTV's (up to 20 years) for sub-debt into TDP and other real estate projects resulting in more dollars going directly to classroom learning.

CSDC has proven that the proposed model is effective and in demand. CSDC used its most recent $5 million credit enhancement grant to leverage a $4 million line of credit from Mutual of Omaha and a $4 million line of credit from the National Bank of Indianapolis (NBI). This $8 million loan fund closed over $4 million in sub-debt loans that leveraged almost $22 million in project financing within the first 9 months, demonstrating the model works. John

Kinman, Vice President of NBI, has expressed interest in the FUND, “It is our intention to build upon our existing relationship with CSDC by increasing our support of charter schools through CSDC as the nonprofit intermediary and landlord as well as giving consideration to increasing the existing line of credit facility with credit enhancement support allowing CSDC to fund debt for real estate projects on a national level.”

While there are other active CDFI facility lenders, they typically price their programs at market rates regardless of their cost of funds, or between 6-7% for senior debt and 7% or higher for sub-debt even when credit enhancement is available. In addition, most of these lenders have LTV restrictions and require some form of equity from their borrowers. CSDC’s program, however, will utilize credit enhancement funds in such as a way as to induce senior lenders, such as Anchor Bank, to indirectly support new schools and offer terms that these schools would otherwise not be able to attract without a solid track record of financial and operational results. CSDC lender Kelly Elkin with Anchor Bank confirms that “a charter school with strategically planned, slower growth per grade will have a difficult to near impossible time obtaining traditional bank financing in its earlier years. Fortunately, with CSDC’s involvement that risk can be mitigated, provding lenders comfort in financing the transaction…”

Based on CSDC’s successful track record of leveraging private capital, CSDC is confident in its ability to replicate that model with this new grant. The distinction with this grant will be an increased and strategic focus on serving small, slow growth school models like BES, in part by establishing incubator space in San Antonio, TX and Denver, CO initially. The slow growth model requires some creativity when it comes to affordable facilities, but the positive long term student results have been witnessed in each of these schools supported by CSDC to date.  Nationally, BES schools routinely outperform their surrounding districts on standardized tests.  Linda Brown, CEO of BES, acknowledges in her blog post that the unique challenge their schools face writing, "Before the name of the school; before the mission of the school; before the grade span of the school; before the city in which the school is located, comes the anxiety and obsession of what building the said school will occupy.  It's almost guaranteed that one of the first three questions out of a BES Fellow's mouth will be, "…..what will I do for a facility?"

To date, CSDC has provided turnkey facility solutions to six BES Fellows, with one additional school (Jefferson RISE) in our pipeline for SY18-19.  Of those 6 schools, two outperformed their districts by 10 points or more in ELA and Math - Purpose Preparatory Academy in Nashville and Vista College Prep in Phoenix (see Letters of Support).

<u>Better Rates and Terms</u>

This program will result in better rates and terms than start-up and slow growth schools would otherwise receive in three distinct ways: 1) access, 2) lower lease rates and purchase options and 3) incubator space during early years of operations.

<u>Access</u>

Often "access" to facilities or financing equates to "better rates and terms." Pursuant to its previous grant performance agreements, CSDC is using a portion of its prior credit enhancement grants to partially guarantee debt financing from commercial banks for TDP projects when that is the most affordable solution for the charter school. CSDC has demonstrated that it is able to deliver affordable and customized solutions to new schools with no operational experience and small starting enrollments in large part due to the credit enhancement and its impact on our strong balance sheet. CSDC leverages our balance sheet to secure the senior financing at reduced rates (average 4.5% per Great Western Bank) compared to what a start-up or early stage school lacking a track record or strong balance sheet of their own, could otherwise secure, if at all. With CSDC as the intermediary, commercial bank debt is indirectly financing these schools creating access where it would not otherwise exist (see Letters of Support from Great Western, Citizens Bank, Mutual of Omaha, etc.).

CSDC knows first-hand that some of the leading for-profit developers working with charter schools impose restrictive and untenable conditions in their leases. In addition, these developers are more focused on supporting large networks/CMOs with substantial facility needs and often in suburban markets where there is a perception of less risk. A typical $3-5 million facility project is not profitable enough to justify an investment. This leaves small, slow growth schools with even fewer options (see letter of support from Purpose Prep Academy and UP Elementary).

Lower Lease Rates and Purchase Options

Not only does credit enhancement create access, the FUND will enable CSDC to provide subordinate debt at substantially lower rates, as well as longer amortizations, resulting in a 300 basis point savings compared to a bank or other CDFI in the current market. By funding a higher percentage of the costs, up to 30%, the overall blended interest rate will decline and tenant schools will save upwards of $50,000 per year in lease expense based on an average $5 million project. CSDC has established collaborations with over 40 banks, many of whom have provided letters of support for this application, to make affordably priced senior capital available for the remainder of the project.

According to “The Finance Gap” (referred to earlier in the application) most start-up charter schools incur debt initially to make leasehold improvements on rented space that they eventually outgrow. To open or expand, charter schools often surrender to predatory, high-interest lending or acceptance of substandard facilities. A typical CSDC lease is priced based on CSDC’s actual debt service rather than the prevailing market rent conditions or private developer returns or cap rates, allowing CSDC to offer more affordable lease rates. On average, CSDC tenant schools spend about 12% of total revenue on lease costs at lease commencement when enrollment is usually at its lowest, and over time as grades are added and enrollment grows, that decreases to an average of 9% which is well below recommended industry standards.

As mentioned throughout this application, CSDC offers a fixed price purchase option in all of its leases unless prohibited by state law. Our development process is completely open book, with the school having input and approval rights throughout to control project scope and cost. Once the total project cost is determined, the purchase option is also locked in and does not escalate over time. As a result, school tenants know the day the lease commences the exact price to purchase their facility whether that be in lease year one or lease year ten. There are no surprises, no hidden costs and schools benefit entirely from any appreciation as purchase price is not tied to market value. Mia Howard, a BES Fellow and Founder of Intrepid College Prep attests, “it became clear during the due diligence phase that for-profit developers interest diverged from ours during discussions about eventually owning our high school facility and the onerous requirements for partnership, including guarantees equal to 25%-50% of the acquisition cost.  CSDC, by comparison, saved us over $1.2mm over 5 years and offered an option to buy with flexibility for the exercise period."

In contrast, most for-profit developers are unwilling to fix a purchase price, limit the period of time of when it can be exercised, or have escalations that are so punitive that schools can never purchase their leased facilities. Tindley Accelerated Schools witnessed this directly when they were initially approached by several for-profit developers "in the market place that are ready and willing to fund projects such as ours, but all with their own interests and financial profitability in mind.  Working with CSDC, however, the interests and needs of the schools have always been the top priority.  And the financial plans that CSDC works to create are ones that are realistic and achievable for the schools."

Access to Incubator Space

In cities and counties throughout the country, the need for incubator space for start-up schools is well documented. One way this grant would ease this burden for school leaders is by providing short-term transitional, or incubator, space with lease rates that are affordable. This lets charter schools focus on building enrollment and academic programs while channeling the funds they save on rent into educational programs. CSDC would initially target two geographies to launch the first two incubators financed through this FUND – San Antonio, TX and Denver, CO.  In both places, CSDC has significant foundation and local support, as well as a pipeline of schools in need of start-up facilities.

Ascher's "The Finance Gap" recognized the unique challenges of slow growth schools citing, "As the charter school adds a new grade each year, it may be forced to find new space to accommodate the slightly larger student body… While most charter schools cannot afford to pay for facilities that already come with room for growth, they also need space for new students." There is ample evidence to support the creation of more incubator space and how it is directly linked to better student outcomes. In a policy brief by Joe Ableidinger and Julie Kowal titled “Better Choices: Charter Incubation as a Strategy for Improving the Charter School Sector,” they found early evidence that suggests that incubation pays off with many charters associated with an incubator get a stronger start and show stronger student outcomes than new schools left on their own.

CSDC selected Denver where the need is particularly acute and documented by data released in March 2018 by the National Charter School Resource Center in their study “An Analysis of the Charter School Facility Landscape in Colorado.” The study found that 17% of schools had to delay opening due to facilities-related issues, such as financing, acquisition of property or land, construction, or lack of available facilities in the desired geographic area. In addition, many schools approved by districts each year never open due to facility-related issues. With 65% of charter schools in Colorado planning to expand enrollment over the next 5 years and 44% of those lacking the available space to do so, the need for incubator start-up space is well documented.

CSDC also selected San Antonio in part because the city is projected to double in size in the next 10 years, while the San Antonio Independent School District has the highest percentage of failing schools of any TX district. City Education Partners (CEP), a local non-profit that seeks to improve the educational outcomes for students in the city's urban core recognizes “CSDC’s commitment to serve economically disadvantaged students aligns directly with our vision." Through catalytic grant-making, the CEP aspires to create an ecosystem that will foster 100,000 high quality seats, and an incubator is one mechanism CEP will support to "eliminate the barriers of facility access that currently inhibit growth," according CEP's Director of Investments, Sukhdeep Kaur.

However, because of the increased risk associated with not having a long-term tenant in place, these projects will require more credit enhancement than a typical TDP project, and these funds will not revolve and recycle as with other projects. As a result, CSDC's leverage targets are more conservative (10:1) than in prior grants, but the outputs and outcomes are worth the investment. While we plan to develop 25 buildings under this grant, we'll serve a minimum of 33 schools and create over 13,000 seats due to the revolving nature of incubator school tenants in these two cities.

***2. The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program.***

CSDC has developed a robust "Logic Model" which is attached to this application with realistic assumptions that will result in the intended outputs and outcomes that ultimately result in lower cost facilities available to charter schools. CSDC's Logic Model was used to develop the project goals, measurable objectives, and timeline that are more fully described throughout this application, but summarized below. To assure progress in achieving these goals, CSDC will collect and analyze data monthly, quarterly and annually, as well as market the program to new communities, BES Fellows and other stakeholders as further described below to ensure adequate pipeline to meet the stated goals.

**Goal 1.** Increase the volume of affordable capital available for charter school facility development projects.

Measurable Objectives:

- CSDC will raise new capital to provide subordinate debt per the following timeline:
  - Create the FUND by securing $10 million in lending capital within 120 days of executing a performance agreement with the DOE.
  - Secure an additional $15 million in lending capital by the end of project year three.
- All loans made by or through the FUND will have the following financial terms:
    - Term - 1-5 years
    - Amortization - up to 25 years
    - Interest only during construction
    - Interest rates - Competitive and fixed at closing, projected at approximately 5% depending on CSDC's cost of capital
- Replicate and expand the FUND model in years 5-10 by working with new philanthropic or other partners to leverage new sources of capital for TDP projects.

**Goal 2.** Serve Communities/Schools in Need.

Measurable Objectives:

- A minimum of 65% of the Charter Schools served during each project year will meet at least one of the following criteria
  - Located in a district where more than 50% of students do not meet the standard for proficiency in either math or language on the state assessment, or
  - Located in a district with 50% or more of the student population eligible for free or reduced-price lunch, or
  - Have more than 50% of current or projected student enrollment who are eligible for free or reduced-price lunch, or

    - Located within economically distressed census tracts under the New Markets Tax Credit program.

**Goal 3:** Serve new, early stage and slow growth charter schools.

Measurable Objective:

- 100% of the schools served under this grant will have less than 3 full years of operating history at lease commencement with CSDC.
- At least half of all cumulative TDP projects during the grant term will be on behalf of a BES Fellow or other similar slow growth school model.

**Goal 4:** Provide leased facilities under CSDC's TDP program model.

Measurable Objectives:

- A minimum of three TDP/real estate projects will commence by the end of the first full project year of the grant, as defined by a certificate of occupancy and executed lease agreements.
- A minimum of three TDP/real estate projects will commence in project year 2.
- A minimum of two TDP/real estate projects will commence in each of project years 3, 4 and 5.
- By the end of project year 3, at least two TDP projects will operate as incubators providing short-term, start-up space to multiple charter school tenants throughout the remaining term of the grant.

**Goal 5**: Provide attractive lease options and long-term facilities solutions to tenant schools.

Measurable Objectives

- Sub-debt provided by the FUND to TDP/real estate projects will reduce the overall financing cost by an average of 300 basis points resulting in lower lease rates to charter school tenants.
- All CSDC leases will contain fixed purchase options that are exercisable beginning at lease commencement, as allowable under state law.
- Real-estate tax exemption will be made available to all tenant schools to the extent obtainable under state law.
- At least two charter schools will exercise its purchase option no later than year 5 of the lease agreement.

**Goal 6**: CSDC will build its internal staff capacity to support this program.

Measurable Objectives

- CSDC will hire at least one additional full time staff person primarily responsible for TDP project management to assist in the implementation of this program no later than March 2020.

**Goal 7:** Serve 33 charter schools (25 buildings/projects) and leverage a minimum of $125 million in total financing during the initial 10 year grant period achieving 10:1 leverage per the following timeline.

Measureable Objectives:

- Serve six schools during the first two project years.
- Leverage on average $3.5 million in senior financing plus $1.5 million in FUND loans for each TDP project.
- Serve six additional schools in years 3-5 of the grant project.
- Originate $19.5M in FUND loans for 13 schools leveraging a minimum of $45.5M in senior financing during the remaining term as funds revolve and recycle.

***3. The extent to which the project implementation plan … are likely to achieve measurable objectives that further the purposes of the program.***

This project is likely to achieve the objectives based on the history of the applicant in administering prior grant awards and the time tested methodology proposed herein. CSDC is a six-time federal credit enhancement grantee with a nationally recognized track record of providing credit enhancements, loans and turnkey facilities in a timely, affordable and efficient manner. We are proposing to replicate and expand our current program with an added emphasis on slow growth school models nationally and incubators in select geographies to enable greater impact than would be possible without additional credit enhancement funds. Citizens Bank is strategically aligned with CSDC and "is interested in providing up to a $50 million line of credit to the organization to expand their ability to provide turnkey facilities solutions to charter schools nationally" - well in excess of the $25 million we have targeted. As a result of significant lender support for our proposal, we are confident we'll be able to implement and launch the new fund according to our goals and objectives. During the most recently completed project year, CSDC committed over $5.3 million in new enhancements on behalf of 14 schools and has closed an additional two projects during the current project year.

Upon notification of the award, CSDC will work closely with its current relationships, including BES, community organizations, foundation partners and state associations, and other facility solutions providers to ensure awareness of the program. Dustin Jones, President of Education Facility Solutions (EFF), has completed over 60 charter school transactions and will continue to be a source of pipeline in Colorado. He acknowledges that "as a result of CSDC's existence, our client schools have been able to secure leases, loans to improve facilities…and occupy facilities that would not otherwise be possible." Additionally, in Indiana, CSDC will leverage its relationship with the Mind Trust to ensure charter operators are aware of our programs. As mentioned in their letter of support:

> Many of Indy's high performing charter school networks were able to open their first schools due to CSDC's partnership and continue to seek this type of support…partners like CSDC are essential to ensuring that new schools are able to afford a facility without compromising their educational programs and responsible growth enrollment.

Similarly, CSDC has a close strategic relationship with the George W. Brackenridge Foundation in San Antonio, TX whose mission is to create transformative educational opportunities in the city. Since 2012, the foundation has focused on recruiting high-performing charter schools to San Antonio and fully supports CSDC's commitment to slow growth educational models stating in their letter of support, "We applaud CSDC for recognizing that growth depends on access to facilities financing which ultimately translates into improved outcomes for students." Coupled with the foundation's recruitment efforts and the projected population growth in the city, CSDC is confident of the demand in San Antonio and that its deployment goals within the city will be easily achievable.

The project team will review pipeline projects prioritizing those meeting the competitive priority preference and begin the formal evaluation and underwriting process. CSDC has developed a proprietary Excel-based spreadsheet to track the annual performance of its charter school clients and the overall performance of its portfolio. Portfolio monitoring conforms to CSDC's ongoing policies with each new school loan risk -rated at the time of approval and tracked to assure diligent performance monitoring and data collection.

***4) The extent to which the proposed grant project is likely to produce results that are replicable.***

This grant will encourage other financial institutions to become active participants in charter school real estate lending by mitigating risk when working through an experienced intermediary and facilities partner like CSDC (see multiple Letters of Support from banks). In 2008 when CSDC first launched its nonprofit development program, there were few, if any, similar options available to charter schools. The terms and methodology by which CSDC implements all of its programs are completely open book to our charter school clients. Over time, awareness and demand for our program have grown, and because CSDC widely promotes its model, other nonprofit and for profit organizations have attempted to replicate the services we provide.

In LISC's "2014 Charter School Facility Finance Landscape" only four nonprofit developers (including CSDC) were active in this market. In just a few short years since that publication, CSDC has witnessed an increase in the number of for-profit developers – Highmark, Turner Impact, EPR, Charter School Capital, Red Apple Development, Performance Charter School Development – entering the market, which is an indicator of the pent-up demand for turnkey facilities solutions. However, CSDC does not consider for-profit developers as "replication" as these entities use private funds with higher return requirements in lieu of federal grant funds, and price their leases and purchase options accordingly. The handful of nonprofit developers coming into this market – Pacific Charter School Development, Building Hope, Civic Builders– have a much less extensive track record in real estate development as well as geographic concentration in a couple of cities or regions while CSDC has owned and developed real estate in 17 states and D.C.

We envision that continued replication of our program will happen with this grant as our existing lenders have cited interest in expanding capacity with CSDC (see multiple Letters of Support from banks). CSDC has also been working with LISC to include information on the terms and conditions of our program on LISC's new "School Build" research portal which is searchable by thousands of charter schools and any other interested stakeholder. CSDC leaders also regularly participate in regional and national charter school conferences and workshops to disseminate information on all of its programs, and actively participate in round table discussions with the aforementioned nonprofit developers seeking similar impacts to identify best industry practices for future expansion and replication.

***5)The extent to which the grant project will use appropriate criteria for selecting charter schools for assistance and for determining the type and amount of assistance to be given.***

CSDC's reputation for successfully serving the highest (perceived) risk segment of the charter school sector - new, early stage and slow growth model schools serving predominately low-income students - is based on its highly flexible underwriting criteria which is the hallmark of this success, including student recruitment and enrollment, governance and administration, budgeting and finance, and relationship with the school's authorizer/sponsor.

In addition, CSDC prides itself of working with schools throughout their growth lifecycle and often provides facilities not only for their initial needs through final campus build out, but for replication sites as well. In the attached letters from City on a Hill, Hiawatha Academies, Self-Development Academy and Tindley Accelerated Schools, each school was encouraged to replicate based on their initial successes and turned to CSDC to secure new locations. Over an 8 year period, CSDC provided TDP services to four of Hiawatha's five campuses, while supporting the 5th campus with a credit enhancement that helped the school secure a long-term lease. Says COO Sean Elder, with the "essential early support of CSDC, we are helping to disrupt systemic educational inequity in Minnesota, something that will be critical to the vitality of our community and region." Self-Development Academy – Mesa consistently ranks in the top 5% for student achievement and recognized a need to provide a similar high quality education to low socio economic neighborhoods in Phoenix. As Asif Majeed, President of the Board of Self-Development Academy – Phoenix attests in the attached letter of support:

> We looked for almost a year, but were not able to find any facilities that met our needs. …Finally, at almost just the right time, we were introduced to Laura Fiemann (CSDC's SVP)…We would have not been able to acquire this building had this been a private lessor…There was no way we could have done this without their assistance…and have currently partnered with them to find additional locations in the Phoenix metro area to expand our network of schools.

Not only does CSDC recognize the value of this "lifecycle approach," our lenders such as Highland Bank in Minnesota also realize that "by working with and through CSDC to serve these young charter schools in the start-up years, we hope to be cultivating strong, future borrowers when the time comes for them to exercise their purchase options. This 'lifecycle approach' is a unique component to our relationship with CSDC…"

In addition to working in states with strong charter school laws as described further herein, CSDC targets its TDP program in geographic areas with strong authorizers, support organizations or foundations supportive of growing the number of charter schools in those communities. As referenced above, CSDC is working with the Brackenridge Foundation, plus City Education Partners in San Antonio, the Mind Trust in Indianapolis, EFF in Colorado and others to ensure the most pressing local needs and priorities are aligned with our programs. A healthy charter school movement mitigates vacancy risk by ensuring a ready supply of new schools in need of space. In Cleveland, OH, Wilmington, DE and Washington, DC, CSDC's original charter tenants lost their charters for differing reasons and ceased operations. In all three locations, CSDC was able to either identify replacement schools and enter into new leases, or in the case of the DC property, sell the facility to high performing and replicating school. The Brackenridge Foundation confirms that "San Antonio is attracting top talent" and "affordable facilities funding will allow for a more robust tool kit for the schools that are currently in the charter application pipeline as well as those that are interested in expanding to San Antonio." This type of local environment informed CSDC's decision to select San Antonio for one of its first incubator locations. CSDC is less likely to work in areas with caps on the amount of charters allowed to operate or in areas with single hostile authorizers where there are scarce alternatives in the unlikely event our initial charter school proves to be unsuccessful.

Ultimate project size, and related FUND loans will be based on a combination of factors, including, but not limited to, LTV of the senior bank financing and the percentage of the total school tenant's budget being spent on lease and occupancy costs.  For example, if a project budget results in more than 20% of the school's revenue being spent on lease or rent once enrollment has stabilized, than the project cost and related FUND loan amount may be adjusted down. Ultimate project and FUND loan size will result in schools incurring a declining percentage of their budgets spent on facilities and occupancy costs.

CSDC conducts direct outreach to charter authorizing agencies, CMOs and ESPs, state charter school associations, education philanthropies, capital providers and critical to this application, BES itself, to cultivate relationships and obtain introductions to school leaders to determine demand for its programs. CSDC participates in regional and national charter school conferences and workshops to gain anecdotal evidence that confirms that CSDC's nonprofit development program is consistent with charter school's most pressing needs (i.e., lack of credit history or enrollment to obtain financing and lack of funds to cover upfront development costs). This is further supported extensively in the direct school testimonials in the letters of support. CSDC also utilizes Governing Board members to generate referrals of charter schools that meet CSDC's mission driven criteria. CSDC has repeatedly demonstrated its versatility by working with a variety of charter schools with varying academic missions, curricula and student demographics, as well as independent schools and schools that are part of a CMO network.

***6) The extent to which the proposed activities will leverage private or public- sector funding...***

CSDC's nonprofit development model is predicated on attracting private sector senior financing to every project. To date, over 26 separate lending institutions have provided almost $200 million in senior debt to CSDC for its facilities projects, with another 27 providing close to $50 million in subordinate loans resulting in 100% LTV. CSDC projects that this grant will achieve similar results and be leveraged at 10:1 times to provide $125 million in financing to 25 projects and 33 charter schools during the grant period.

CSDC has attracted strategic partners like the Kauffman Foundation ($5M PRI), Daniels Fund ($3M grant), Calvert Foundation ($1M PRI), Communities at Work Fund ($1M PRI), Innovative Schools ($1M PRI), the Walton Family Foundation ($5M PRI), Opportunity 180 ($1.5M PRI) and numerous lending institutions. These philanthropic investments have been deployed across CSDC's lending and development programs and result in further leverage of our federal dollars. Many of CSDC's existing lenders in our current loan programs have already expressed interest in increasing their investments in charter schools through CSDC as the nonprofit intermediary and landlord and have provided letters of support for this proposal. Likewise, foundations like Brackenridge are committed to providing philanthropic investments to our incubator initiatives to ensure long-term viability.

***7) The extent to which the project will serve charter schools in States with strong charter laws***

The Center for Education Reform is a recognized authority for analyzing the nation's charter laws and assigns each state a letter grade based on a combination of factors. Similarly, the National Alliance for Public Charter Schools ranks each state in order of its relative strength based on 20 components. Historically, over 73% of CSDC's grants have been deployed in "A" or "B" rated states by CER according to their "2018 Scorecard," and 80% has been deployed in the top 50th percentile of states ranked by the Alliance.

For this proposal, CSDC expects to maintain similar levels of investment. CSDC has set a goal of deploying at least 65% of FUND loans into projects located in states with a rating of "A" or "B" or in the top 50th percentile. CSDC already has a significant track record serving charter schools in states with strong laws with 60% of CSDC's cumulative credit enhancement and facilities projects being located in the 6 top ranked states by CER:

| **State** | **State Rank** | **# School Projects Funded** |
|---|---|---|
| DC | 1 | 9 |
| AZ | 2 | 23 |
| IN | 3 | 27 |
| MN | 4 | 20 |
| MI | 5 | 6 |
| CO | 6 | 32 |

As a result, charter schools located in these states will also be prioritized for assistance through this grant.

***8) The extent to which the requested grant amount and project costs are reasonable in relation to the objectives, design, and potential significance of the project.***

Project costs as outlined in the attached budget are nominal and related to the hiring of one additional full time staff person dedicated to providing real estate development and technical assistant services under this grant. The new position will be funded 100% by the grant in the first 3 years of implementation, and then declines over time as the program generates its own income to support the position. CSDC covers administrative costs in excess of the grant's 2.5% through revenue generated from its existing programs, for example, loan origination fees, spread income and the development, leasing and sale of TDP projects outside of this grant to charter school tenants (See Table 1).

The grant proceeds will be deposited in a similar fashion as previous grants, i.e. with an FDIC-insured or other deposit account pursuant to program regulations. Projections in the attached Cash Flow Proforma are conservative and reflect the historically low interest rate environment. To the extent that interest rates improve, income to the grant will increase while expenses will decline pursuant to the proposed budget. Total revenue from the reserve account is projected at $2.6 million for the ten-year contract period, well in excess of the expenses expected to be charged to the reserve account. After a 10 year period, we project the reserve account to grow to $13.3 million.

**Quality of project services**

***1) The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served.***

The demand for programs and services specifically targeted to the needs of new, early stage and slow growth schools is critical to the continued growth of the charter school movement and documented throughout the letters of support for this application. Ignacio Prado, a BES Fellow and founder of Futuro Academy, says "we focus deeply on our core competencies of being accessible to families and providing an excellent education, while leaning on partners to deliver the supports and competencies we cannot hope to be exemplary at. The development of real estate falls clearly in that area, and CSDC provided a much needed pathway to a facility…"

CSDC's current demand for projects both for the 2018-19 and 2019-20 school years will quickly deploy a significant amount of CSDC's remaining unobligated federal funds across all of its previous grant awards. Based on average annual deployment, without new capital to leverage, CSDC's ability to continue to meet the needs of schools will slow significantly.

For over a decade, demand for CSDC's TDP services has outpaced demand for any other CSDC program or offering. Lack of access to either financing or high quality lease arrangements has been widely documented throughout the industry. LEEP Dual Language Academies, a new school hoping to open in San Antonio in 2019, informed this application by confirming "new, independent charter schools like ours are at a structural and financial disadvantage in the facilities market, with pressure to either settle on an inadequate school facility or expand faster than is educationally prudent for the sake of budgetary needs."

CSDC has been addressing this discrepancy by providing credit enhancements and facility programs designed to offer schools "one-stop shopping" for their financing needs so that our borrowers and tenants do not have to relocate as enrollment grows, secure other sources of equity nor divert educational funding to satisfy commercial lending requirements. Justice High School is a prime illustration of this need citing "The CSDC program is a Godsend to small charter schools who serve unique populations like ours…With the aid of programs like CSDC we are able to build a solid infrastructure to improve programs." Similarly, borrower Academy of Advanced Learning commends CSDC for being able to "structure our loan payments in a way that addressed the financial challenges of a first-year charter school."

In other attached letters of support, there are ample testimonials as to the consistent needs of new, early stage and slow growth schools for CSDC's programs. Art and Science Academy in rural Minnesota may not have survived its first year of operations if not for CSDC's intervention. That school grew from 156 students when we began our relationship and purchased their elementary school building to a projected 425 students next year. Last summer, we were able to construct a brand new middle school only blocks from the elementary to accommodate this growth. Similarly, Jefferson RISE, also a BES Fellow led school, searched for 15 months to find affordable start-up space and eventually was forced to sign a 4 year lease for space that would only accommodate the first two years of operations. The school encountered "endless difficulties" when trying to find space that would prevent them from having to split up their staff during the early years of operations and led to the addition of poorly constructed modular buildings on the leased site.

As discussed earlier in this application, banks are willing to lend to CSDC that otherwise would not lend directly to de novo schools and schools intentionally beginning with small enrollments thus creating access where there otherwise would be none. Kelly Elkin from Anchor Bank has been a banker for 30+ years and "without CSDC's partnership, several of the charter school facilities [she's] been involved in financing may not have occurred, or the projects would have been greatly delayed causing increased construction and/or financing fees."

Our experience with charter school board members further confirms the needs of schools. As board members remind us, the primary responsibility of a charter school governing board is to monitor the cash flow and financial operations of the school and it is essential to be able to accurately predict rent and occupancy expense during the first five years when enrollment is growing. CSDC's fixed lease rates and purchase options empower school governing boards by bringing this predictability to their facility/occupancy expense. CSDC's lease terms assure boards that school leaders can focus on producing strong educational programs without the stress of having to relocate from one leased facility to another to accommodate enrollment growth. Says Arizona Autism Board President, “In order to facilitate this slow growth model, the school had to acquire affordable financing for its second facility…CSDC offered the best solution, offering lower monthly payments allowing the school to introduce one grade level at a time.”

***2) The extent to which charter schools and chartering agencies were involved… and demonstrate support for the grant project.***

The proposed FUND evolved based on input from many sources, including testimonials from recognized leaders in the charter school movement, national research and existing CSDC funded schools, including BES and slow growth model schools, and lenders, as illustrated by the extensive letters of support. Additionally, CSDC’s Governing Board includes members with direct experience founding, leading, and authorizing charter schools (see also “Capacity”). Members are responsible for providing input and feedback regarding CSDC’s services and ensuring that CSDC’s financial products are tailored to the needs of the schools we serve.

According to “Beyond-the-Fringe,” a report published by the National Association of Charter School Authorizers, facilities in Colorado have become even harder to come by, due in part to a growing marijuana industry that is competing for similar space.  To make matters worse, schools can’t open within 1,000 feet of a facility that grows or dispenses marijuana.  To put this in perspective, as of Feb. 2018, there were more dispensaries in Denver than there were Starbucks and McDonalds locations combined.

The charter sector has seen a proliferation of charter school support and philanthropic organizations, like The Mind Trust in Indianapolis, City Education Partners, Brackenridge Foundation in San Antonio and 4th Sector Solutions, who all support this application and work every day to attract and launch high-performing schools in their cities. In the "Better Choices" policy brief referenced earlier, the authors found "…incubators help create more robust education reform markets by attracting and recruiting proven charter school models to new localities… They can also assist CMOs in adapting their models to local community needs. By helping to provide a "soft landing" at the local level for charter networks based elsewhere, incubators increase the potential for lasting success."

***3) The extent to which the technical assistance and other services to be provided by the proposed grant project… including the reasonableness of fees and lending terms.***

The grant project team consists of experts in charter school finance and education who regularly provide one-on-one counseling free of charge to both prospective and client schools. CSDC's technical assistance is customized to address each school's specific area of need. Topics often focus on financial modeling, growth and business planning, budgeting and forecasting, cash flow analysis, cost benefit analysis and financial performance monitoring and evaluation. Technical assistance also includes, but is not limited to the following:

- Site feasibility analysis
- Affordability analysis
- Construction budget review
- Short vs long term facilities planning (lease vs. purchase, determining square footage need, developing project plans, etc.)

A perfect example of the type of technical assistance we provide our clients in particular is AXL Academy. AXL embarked on an internal feasibility study to determine if the school was in a position to purchase its leased facility, something CSDC encourages and tries to facilitate. "In AXL's most recent quest to possibly purchase the current building CSDC provided primary advice and counsel and we looked at all options for a potential purchase.  Our financial personnel have relied on CSDC as the primary negotiator in exploring the school's options to move from a lease to a purchase," writes Dan Cohen, the school's ED.

CSDC's services help prospective and current clients accurately assess their potential and develop business plans to support the achievement of their goals. CSDC helps schools avoid crisis management by requiring schools to address the following during the application process: Leadership and Board succession, financial contingency planning, marketing and student recruitment strategies, and academic accountability plans.  In many cases, young schools with energetic founders and leaders are not thinking about longer term succession, and appreciate CSDC's probing of these issues early on.

CSDC's relationship with its tenant schools and borrowers goes well beyond that of a business transaction; we are invested in the financial viability and long term success of our schools.  For example, Desert Star Community School best describes CSDC's technical assistance in their letter of support: "Since CSDC specializes only in charter schools and shares our objective for our school's success, our leaders have benefited greatly from advice and helpful feedback from CSDC over the years." LEEP Dual Language Academies says CSDC provided the new school with "remarkable support toward identifying and securing an appropriate facility for our slow-growing campus."  Academy of Advanced Learning "feels as if we received much more than a loan: we also received encouragement and tailored support that allowed us to open a school at scale…"

Some charter school applicants may not be deemed immediately qualified for CSDC's programs. As part of the initial due diligence process, staff works with school management to identify weaknesses and strategies for improvement. CSDC's no cost technical assistance is highly effective, as between 70-80% of all schools receiving such services eventually become its clients. Further, CSDC has incurred a nominal default rate of <2%, establishing a direct link between the level of technical assistance provided and the sustained quality of its portfolio.

***4) Focused on assisting charter schools that have the greatest needs for assistance under the program.***

The focus of this project on new, early stage and slow growth schools meets a need that is currently unfulfilled at scale. As described earlier, most other CDFIs, and several other grantees under this program, are focusing on mature schools or those that are part of a CMO/EMO. This leaves new and independently managed schools with less access which is shortsighted because these schools may become the CMOs of tomorrow. In 2016-17, 72% of Colorado's charter schools were operated independently. This grant program would help address those needs by opening up access to turnkey and incubator facilities.

4$^{th}$ Sector Solutions has worked with over 50 charter schools nationally on their facilities needs and attests to CSDC's expertise citing it as "critical to meeting the unique needs of schools that start small and grow one grade per year in order to ensure the quality of their program and the success of all of their students…Other lenders and developers charge high fees, impose aggressive rent escalations, and force onerous transaction conditions on the schools they finance."

Traditional banks deem new charter schools to be risky, according to the 2014 Charter School Facility Finance Landscape report by LISC. As startups, they typically do not have credit strength, collateral, established cash flow, or organizational infrastructure necessary to conform to standard underwriting policies. Further, school properties are considered cumbersome collateral that is hard to repurpose or sell. Lenders such as Mutual of Omaha, Franklin Synergy and Jefferson Bank, as well as CDFIs like Partners for the Common Good, routinely decline requests from schools precisely for these and other risks (see their respective Letters of Support).

Through the new FUND, CSDC will remove these barriers to access and success for start-up, expanding and slow growth charter schools in distressed communities by providing high quality and affordable facilities as an interim owner and landlord. Great Western Bank is able to lend to CSDC at "advance rates, interest rates, and terms that would not be otherwise available to these schools based on our credit and underwriting standards." As a result, schools with the greatest need, i.e. new, small, early-stage and slow growth schools, will be indirectly supported by traditional sources as a direct result of CSDC's FUND model. One of the best examples of how our program operates is Purpose Preparatory Academy in Nashville (a BES Fellow launched school). The founder and head of school, Lagra Newman, sums up her experience with CSDC best:

> CSDC supported Purpose Prep to secure a permanent facility in our early years, which is a difficult feat for new charter schools, especially ones without the support of a larger network of schools. By financing our facility, CSDC enabled us to serve our scholars from year one (90 scholars) to full capacity (over 360 scholars) with a permanent school building for our initial years… We now own our building, and this reality would not have been possible without the support of CSDC.

CSDC's new and early stage client schools are defined by the characteristics they share: a) they do not meet traditional lending underwriting standards; b) they have limited assets and little or no operating experience or credit history; c) they are significantly underfunded as compared to district school counterparts; d) cash flows, operating margins, and reserves are neither adequate nor stable, as the school's enrollment growth and the addition of more classes, grades, and students does not stabilize until the 3$^{rd}$-5$^{th}$ year of operation; e) management, while strong in educational matters, has limited real estate or financing-related experience; f) they cannot obtain long term financing due to traditional lenders' fears of 'charter renewal risk;' and g) the appraisal gaps confronting schools, especially those locating in low-income urban or rural communities with severely depressed real estate values, often prevents them from accessing private sector capital absent credit enhancement.  See Table 4 for CSDC's risk rating of charter schools served to date.

CSDC will also assess the rate at which its applicant charter schools anticipate using strategies that research has proven are often effective—smaller schools, smaller class size, more school time, and greater parent involvement – in determining likelihood of success. CSDC has developed a proprietary Excel-based spreadsheet to track the performance of its charter school clients and the overall performance of its loan portfolio both quarterly and annually.  Portfolio monitoring conforms to CSDC's ongoing policies with each new school loan risk -rated at the time of approval and tracked to assure diligent performance monitoring and data collection.

**Capacity**

***1) The amount and quality of experience of the applicant….***

CSDC has an exemplary track record of serving high impact, high quality charter schools, especially new and early stage schools (see Letters of Support). CSDC has received the most individual grants under this program to-date, and is the second largest recipient of grant funding by dollar amount. CSDC is uniquely prepared to seamlessly implement a new grant given its familiarity with the statute, legislative intent and reporting requirements. The cumulative experience in administering very impactful programs, in addition to high quality underwriting and proven leveraging of private sector capital, as a direct result of its federal funding is evidence of its capacity and knowledge to manage this proposed program.

With the prior grants, CSDC designed products in conjunction with its client schools to leverage and partially secure funding from traditional funding sources. Without CSDC's assistance, many schools would not have been able to open, thus losing the opportunity to provide quality educational opportunities to low-income students (see Letters of Support).

The success of CSDC's TDP program, as well as the qualifications of CSDC staff to underwrite, finance, manage and deliver complex real estate projects with multiple types and sources of financing are well documented in the letters of support and track record as reported each year in the annual performance reports to the DOE attached to this application.

***2) The applicant's financial stability.***

The CPA firm of Matthews, Carter and Boyce, P.C. has audited the organization annually since its inception. All of its audits, which are prepared on a consolidated basis for CSDC and its subsidiaries and affiliates, to date have been unqualified and confirm full compliance with reporting requirements, cite no internal control deficiencies, and no instances of non-compliance with Government Auditing Standards. Because CSDC receives Federal funding, the auditor's reports also opine on the company's Internal Controls over Financial Reporting and Other Compliance matters. The organization's three most recent annual audits and Form 990 are attached to this application. Also attached are organizational documents.

As a 501(c)(3) and CDFI loan fund, CSDC is not required to have a credit rating, nor has it gone through the CARS rating process which is expensive and onerous for a small organization with a relatively small staff as compared to larger CDFI's who have obtained the rating. However, in 2017, CSDC successfully completed the Treasury Department's rigorous process for CDFI recertification indicating a determination of CSDC's financial stability, community development mission focus, and managerial competencies.

CSDC is a financially sound non-profit that controls expenses and generates revenue in order to be self-sustaining and serve more charter schools. As of 12/31/17, CSDC reported $177 million in Total Assets and $46 million in Net Assets. Average deployment levels as of the fiscal year-end were high at 85%, which is a strong indicator of demand for our products. Our default rate at 12/31/17 was <2%, which is substantially below CDFI's industry standard of less than or equal to 7%. CSDC's annual debt service coverage ratio is a covenant of most of our lending agreements, and was at a comfortable 1.37x as of the end of our most recent fiscal year.

***3) The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management.***

Charter schools seeking assistance must complete CSDC's rigorous application and underwriting process. CSDC's due diligence begins with determining if the school is a mission fit, and if so, the extent to which the following characteristics are present: capacity, character, curriculum, collateral, and external conditions such as the strength of the state's charter laws, community support, demographics, location, condition and accessibility of the facility, enrollment and the terms of the charter. In addition to examining staffing and administrative costs and financial contingency plans, CSDC requires all applicants to provide a leadership and succession plan for the daily leader and key Board members. CSDC also requires marketing plans demonstrating how they intend to meet or exceed enrollment goals, as well as an accountability statement detailing how they plan to ensure individual student achievement.

Throughout the underwriting process, we examine more than 17 different aspects of a charter school's business plan. These items provide the means to predict, and later track, a school's academic and operational outcomes. This data, coupled with the thoroughness of its upfront analysis and underwriting, informs CSDC of how to assess credit risk and identify schools with the greatest likelihood of success which mitigates against future defaults. Once satisfied, the project staff presents its recommendations for Board review and approval.

CSDC's Portfolio Servicing procedures are reviewed by the Board with input from the Credit Committee. The Board also reviews portfolio quality reports at least quarterly, and more frequently as needed. Write-off provisions and delinquency protocols are specified in the policies. CSDC's servicing, monitoring and risk assessment procedures strengthen its internal capacity to assess the portfolio's ongoing quality, identify watch credits early-on and provide immediate technical assistance to mitigate delinquencies or defaults as evidenced by its historically low default rate. The frequency of periodic reviews increases if the loan's risk rating increases. The project team monitors quarterly/annual financials, enrollment trends and all academic reports provided to the authorizing entity. Based on an analysis of this data, CSDC determines what follow-up action, if any, is required.

CSDC is deeply supportive of its clients' challenges and works with them to address unforeseen occurrences. However, protecting capital is of the utmost importance, and staff interacts with any school who is 15 days late with payments to devise and implement a workout plan to cure the delinquency. CSDC has only experienced three vacancies in its TDP history. It is important to stress that in every instance where the leasing income stream stopped, CSDC – because of its financial stability – continued to make the loan payments to our lenders so that at no time was the federal credit enhancement at risk or drawn upon.

The Board annually reviews and approves the financial policies and internal control procedures. On a quarterly basis, the Financial Controller produces financial statements for management reflecting the organization's financial health and informing decisions on the adequacy of CSDC's reserves.

***4) Applicant's expertise in education to evaluate the likelihood of success of a charter school.***

Inherent in working with this niche is an elevated level of risk in terms of enrollment, academic results and charter renewal, coupled with lack of a fund balance or other sources of capital to be used as equity or cash reserves. However, indicative of CSDC's credit underwriting rigor, specialized expertise in evaluating a new school's likelihood of success and ability to mitigate the “start-up” risk, is its modest, historic <2% default rate. The Project Director has prior education experience, working for several years as a substitute teacher in Arlington County Public Schools, Arlington, Virginia, as well as a Master’s Degree in Education Policy from George Washington University. Our Project Developer began her career as a teacher and later was a founding charter school principal for a highly successful network in Arizona before taking on responsibility for the network’s facility growth plans where she arranged more than $100 million in bond funding for school construction, renovation and expansion projects. Other members of the project staff have acquired extensive and specific education industry knowledge regarding curricular models, academic performance, classroom management protocols, governance best practices and other factors needed to evaluate the likelihood of success of applicant schools. As evidenced by the letters of support, CSDC staff’s ability to make upfront credit decisions regarding future success of a school is well supported.

In addition to the project team, CSDC utilizes Governing Board members (two of whom are in the Charter Schools Hall of Fame which was established to recognize individuals for pioneering the development and growth of charter schools, implementing innovative ideas, and inspiring others in the movement), who have direct experience in education as it relates to establishing curriculum, staffing, managing operations and good governance practices. The members provide input into CSDC’s loan policies and underwriting guidelines ensuring they reflect the characteristics that contribute to school success. Examples include Board Chair Tom Nida who is recognized nationally as a pioneer in the movement and was appointed to the DC Public Charter School Board in 2003, was elected Chairman in 2004, and served in that capacity until 2010. Vice Chair and member of the Hall of Fame Ember Reichgott Junge is the former

Minnesota State Senator who authored Minnesota's 1991 first-in-nation charter school law. She is a national spokesperson on charter public schools and provides board governance training to charter schools across the country. James Goenner, also a member of the Hall of Fame, currently serves as President/CEO of the National Charter Schools Institute which supports the growth of the charter schools movement in Michigan and throughout the nation. Mr. Goenner was the former Executive Director at The Center for Charter Schools at Central Michigan University, the nation's largest university authorizer of charter public schools. Full biographies are attached.

***5. Conflicts of interest by employees and board of directors in a decision-making role.***

CSDC ensures against any real or perceived conflicts of interest from the board level through the staff in two ways. CSDC has established, and the Board has adopted, (1) the attached Standards of Conduct policy that applies to both the Board and corporate officers, and specifically addresses conflicts of interest at the board governance level, and (2) the attached "Business Ethics" policy excerpted from CSDC's Employee Handbook which governs potential conflicts of interest at the staff level. Prior to the beginning of any employment with CSDC, each staff member was provided a copy of the Employee Handbook and certifies that it was read and understood. Both policies prohibits directors, officers or staff from participating in any vote involving any issue, decision or transaction in which they or any family member or business associate has a conflict of interest. Conflicts of interest are defined as any situation in which an officer, director, family member or business associate has or reasonably appears to have a material financial or economic interest in a matter affecting CSDC or its affiliates. Violators are subject to all appropriate legal and corporate sanctions and remedies, including removal from office.

***8) For previous grantees under the charter school facilities programs, their performance in implementing these grants.***

CSDC submits annual performance reports (APR) for all of its current grants. Each APR reflects compliance with the performance agreements, the most recently submitted of each is attached for reference. Of particular note is that as of 9/30/17, CSDC funded over $62 million in federal credit enhancements from its original $28.6 million in grants (the most recent $5 million grant was not implemented as of that date and not included in this calculation) – evidence of its ability to protect, revolve and recycle its prior grants as projected – on behalf of 183 school transactions leveraging over $540 million in total private capital, and leased commitments resulting in over 16:1 cumulative leverage of its federal grants. Pursuant to Table 4, 60% of CSDC's client schools served through its credit enhancement grants have had less than three years of operating experience, and one-third of schools received enhancements for leasehold improvements. CSDC is responsible for financing, credit enhancing or developing over 70,000 student seats and over 6.2 million square feet of safe and affordable educational facilities across its programs in 25 states plus D.C.

In August 2016, the DOE conducted a two-day onsite monitoring visit during which they conducted interviews with staff who have responsibilities related to grant implementation and oversight, as well as a member of CSDC's board and credit committee. The team also collected extensive information regarding CSDC's performance with respect to each of four areas, with 19 related "indicators" of compliance: (1) program operations, (2) grant performance, (3) oversight of the charter school portfolio, and (4) financial management. CSDC was then rated either "Low Risk," "Moderate Risk," or "High Risk" on each indicator. CSDC received a "Low Risk" rating in 14 of the 19 indicators, and a "Moderate Risk" on the other 5. However, the reason cited most often for the moderate risk rating was not due to noncompliance, but rather due to the fact that CSDC has received the most individual grants under the program "which increases the overall level of risk and need for understanding and monitoring of their operations."

**Quality of Project Personnel**

***1)The qualifications, including relevant training and experience, of the project manager and other members of the grant project team....***

<u>The Grant Project Team – (Complete resumes are attached)</u>

**Michelle Liberati**, EVP, joined CSDC in 1998 and is the Project Director who has effectively managed CSDC's six prior credit enhancement grants. She will continue to serve in that capacity under this proposal and will have general oversight responsibility, including 1) ensuring all program goals and objectives are met; 2) marketing and replicating the program; 3) identifying new sources of capital; and 4) overseeing the portfolio monitoring process. She is responsible for the program's overall management and evaluation, including participating in quarterly monitoring calls and preparing the annual performance reports. She has a Master's in Education Policy and worked as a substitute teacher in Arlington County Public Schools, Arlington, Virginia for several years prior to joining CSDC.

As mentioned earlier, during CSDC's onsite monitoring visit, one of the "indicators" which was reviewed was that a "qualified project director is managing the program… the person should have extensive knowledge of the CE program, finance, education and charter schools." The monitors conducted lengthy interviews with Michelle Liberati and ultimately determined that she met this indicator and CSDC received a "Low Risk" rating in this area.

**Laura Fiemann**, SVP, joined CSDC in 2010 and is the Senior Project Manager and administers the organization's existing CDFI and real estate programs. She has over 25 years of experience in loan origination, deal structuring and the capital markets. She will be primarily responsible for building a pipeline, conducting due diligence, structuring and presenting transactions for approval, and providing additional support and technical assistance pre and post-closing as needed. Ms. Fiemann's track record of delivering projects across all of CSDC's programs is well documented in the Letters of Support.

**Rebecca Secrest**, Vice President, joined CSDC in 2006 and is primarily involved with CSDC's Turnkey Development Program, performing the role of Project Manager on facility development projects from the initial feasibility study through full underwriting, credit analysis and predevelopment through financing, acquisition and project completion. She represents CSDC and its charter school clients with commercial banks, CDFIs and landlords and will be responsible for delivering TDP projects under this and other CSDC grant programs.

**Ashley Brown,** Project Developer**,** is primarily involved in the research and underwriting stages of the transactions. As a former teacher and founding charter school principal, her experience in education and in schools brings additional capacity to provide a sound evaluation of the academic model and educational programming of school applicants, analyzing leadership, staffing, overall costs and operational efficiencies.

**Mark Zeizel**, Assistant Vice President**,** joined CSDC in 2013 and is the project's credit manager primarily responsible for the upfront financial analysis, as well as monitoring and servicing the portfolio once transactions close and fund. Specifically, he will create pro-forma projections, analyze governance and academic performance, interview charter authorizers and draft, in consultation with the Project Managers, the formal credit memo/recommendation presented to the Credit Committee.

**<u>Support Staff</u> –** CSDC's staff consists of 12 full time employees (FTE) which is adequate staff capacity to meet the increased demand for services. CSDC has a robust 3.5 FTE accounting/back office team that provides significant capacity to support the project managers related to loan origination, project draw request and reconciliations, as well as any other financial reporting that is required. The accounting team also ensures fiscal accountability related to the tracking, deployment and reporting of existing, and any future, grant funds, as well as the daily workflow related to project accounting, accounts receivable and payable and cash reconciliations. The Organizational Chart depicting their principal rolls and functions is attached. The project team outlined above has been, and will continue to be, indirectly supported by the support staff.

***2) The staffing plan for the grant project.***

This grant project is sufficiently staffed with Michelle Liberati overseeing project implementation and ensuring accountability, and day to day activities carried out by the project team identified above. Further, CSDC strives to achieve minimal turnover with current staff members averaging almost 7 years with the organization.

The staffing plan anticipates hiring a new project manager in Q1 FY20 whose primarily responsibility will be the overall development and completion of multiple real estate development projects on-time and within budget. Development includes, but is not limited to, completing financial analyses and modeling for proposed projects, conducting site visits and performing assessments and evaluations of potential properties, overseeing and coordinating due diligence and predevelopment on potential properties. Current staff can address the short term needs of implementing this program, to continue to meet the proposed annual deployment goals and maintain CSDC's commitment to quality, however, the organization identified a need for an additional staff person dedicated to delivering projects supported by the FUND in future years as demand will grow. We project the grant fully supporting the new position in the first three years, with declining percentages over time as non-grant program income is generated to support the position as further explained in the attached Budget Narrative.

Similarly, as CSDC's portfolio of active schools increases year-over-year, the burden of collecting and analyzing monthly, quarterly and annual financial, academic, operational and governance reports of client schools also increases. Currently, almost half of the Assistant Vice President's time is spent on portfolio monitoring rather than growing the pipeline and closing transactions.

CSDC will grow from 12 FTE to 13 FTE over an 18-24 month period and be well positioned to meet or exceed its growth targets.